Monthly Letter on Economic Conditions Government Finance

1950

New York, July, 1950

General Business Conditions

THE general run of business news for the month has been pretty much overshadowed by the momentous events of the final week. The Communist invasion of South Korea came as a shock to people everywhere and caught the markets off balance. Under the first panicky reactions, prices on the stock exchanges broke heavily, while the sensitive commodity markets rallied sharply. Whether these initial impulses represent a correct appraisal of the situation remains to be seen. Cooler heads in business recognize the danger of indulging in any excited buying or selling or other precipitate action, and the necessity of keeping calm and awaiting developments.

While the crisis in the Far East is grave, there is reason to hope that the prompt actions taken by the United States Government, in implementing the resolution of the Security Council of the United Nations calling upon all members to render assistance in halting aggression, will prove effective and that the war clouds which have gathered so threateningly will be dissipated. The response in the Congress and in the press throughout the country has given evidence that the American people are wholeheartedly in support of the President's firm and courageous decision. It is felt that the war in Korea represents a test before the world of American determination to uphold commitments under the United Nations, and that any course other than that pursued would have been interpreted as a sign of weakness and irresolution more dangerous in its implications than the calculated risk that has been taken.

The next few days — possibly weeks — will be a time of suspense and anxiety. The peace-loving people of the world can only trust that the aggressors in this new threat to peace will shrink from any action calculated to bring on the unthinkable calamity of a Third World War with its disastrous consequences to all.

Business Upswing at New High

Meantime, the business upswing has probably made new highs during June. From all indications, industrial production generally is running at or above the peak levels of 1948. Few, even among the optimistic, expected the recovery from last year's slump to carry to the lengths it has. With business going full tilt at the year's half-way mark, confidence regarding the balance of the year was, at least up to the Korean episode, increasing. The latter event has, of course, injected new uncertainties.

Steel mill operations during June were at 101.5 per cent of rated capacity, continuing the highest tonnage output in history. "Iron Age" notes that steel users are operating at a terriffic clip and that mill order backlogs are huge. Weekly motor vehicle output reached a 10 million a year rate. Delays of one or two months in deliveries of popular priced makes of cars are reported in many areas, and President C. E. Wilson of General Motors has stated that buyers are "sucking

CONTENTS

cars in as fast as we can produce them", and that he believes the last half year will be as strong or stronger than the first half. In the heavy industries, machine tool orders have extended the pick-up begun last November and in May were the largest in more than four years. Order backlogs have increased in foundry products, heavy machinery, and construction equipment.

Residential construction has continued at record proportions with a total of 140,000 family dwelling units started in May, an annual rate above 1,600,000; and the pace probably has been undiminished into June. The dollar value of contract awards for all types of construction in May (work to be started) ran 50 per cent ahead of May last year, and in the first half of June awards were 33 per cent over a year ago. Awards for residential construction alone in May were approximately double last year's figure, with awards in the first half of June up 60 per cent.

The business boom thus far has been supported largely by consumer spending on autos, and on housing and everything that goes with it. More recently, business expenditures for new plant and equipment have started to point upward despite a disappointing first quarter. Whereas earlier this year government surveys had indicated a probable decline of around 11 per cent in these expenditures during the first nine months of 1950 as compared with the corresponding period of 1949, the estimates of expenditures for the second and third quarters have been raised, putting the nine-months decline at only about 6 per cent. The year's total seems certain to be substantially higher than the $16.1 billion previously forecast.

With the durable goods industries booming, it is not surprising that business generally is rolling along at near capacity levels. The momentum apparently has pushed into the lighter industries which have been becoming more active. New life also has been evident in consumer goods generally, in line with sustained demand and merchants' anticipations of good fall business.

Department store sales, which had been lagging in the boom, made a sizable increase in June over the corresponding month of last year. Summer wholesale markets have been generally active, with retailer buying of apparel and accessories, floor coverings, and furniture exceeding that of a year ago. More liberal advance buying by retailers contrasts with last summer when retailers held back and ran short of merchandise in many cases when the fall pickup came along.

In the cotton textile markets buying has become more active with bookings on standard constructions extending into the first quarter 1951, and at increased prices. Rayon markets have been firm and active, and woolen and worsted manufacturers have been booking some business for spring lines at prices to be determined at time of delivery.

The Inflation Threat

In boom times like these the question always arises as to whether inflationary forces may not gain the upper hand and lead to a cycle of rising wages and prices and expanding credit. The present situation has many inflationary elements in it — the federal government deficit, excessively easy terms for home mortgage financing, the large and increasing volume of consumer instalment debt, farm subsidies, constant pressure by organized labor for more wages and other benefits, and — now — the war scare.

The latter comes at a time when the economy is operating close to capacity, and when there is little "give" on the upside to take care of any enlarged demands either on the part of the Government or of private citizens.

A point to bear in mind, however, is that no country in the world has ever seen such an outpouring of goods in peacetime as this country is now enjoying. In view of this fact one may question how long the current rates of production in certain lines can be maintained without beginning to catch up with requirements. While basic commodity prices had a considerable rise this spring, the reaction early last month was an indication of reluctance on the part of buyers to reach too high and a reminder that commodities that have been over-bulled can drop sharply. The caution exhibited by business leaders since the end of the war has been an important stabilizing influence all along. In the present instance, barring a major conflict, anyone rushing out and buying on the assumption that prices are going through the roof may find he has acted over-hastily.

Presumably the warming up of the cold war will mean intensified spending on national defense. With the Treasury already showing a deficit, it becomes all the more imperative to cut down non-essential federal spending to avoid feeding the inflationary fires now and piling up more debt for servicing and paying down in the future.

Latin America Earns More Dollars

For the first time since the early part of 1946, the Latin American countries as a group in the past twelve months have earned and received more dollars than they have spent. Their gold and dollar reserves have increased from the low point of $3.1 billion in the spring of 1949 to nearly $3.5 billion at the close of March this year.

A year ago few people would have ventured to predict such a turn in the trend. Prices of some of Latin America's leading exports were falling, demand for her raw materials in the United States was still slow, and there was threat of increased competition from Southeastern Asia. But improvement was in the making. Governmental measures to conserve gold and dollar holdings helped stem the outflow, at the expense of severe curtailment of imports in many countries; and what these measures could not do by themselves was accomplished by a change in international trade prospects. The business recession in the United States gave way to an upswing, and the high level of U. S. purchasing power has kept many Latin American commodities in good demand. Inflation and unrest have stood in the way of full recovery in production of competitive commodities in Asia. The doubling of coffee prices has vastly improved the dollar position of the coffee-producing countries.

An expanding demand from Europe for Latin American products has helped firm prices of some commodities, such as wool, and insofar as such exports have represented "offshore purchases" financed by the Economic Cooperation Administration they have supplied dollars. But the main significance of the comeback of Western Europe is in enabling such countries as Argentina, Brazil, and Uruguay, which traditionally have a large trade with Europe, to re-establish a more normal pattern in their international payments. As the range of European exports widened and prices became more competitive following the September currency devaluations, these Latin American countries have been able to make more of their purchases in Europe. Latin America's export surplus with Western Europe during the first half of 1948 had reached an annual rate exceeding $1.5 billion – a figure at least six times the prewar surplus. This was reduced early this year to an annual rate of a quarter of a billion.

Latin America's Dollar Balance Sheet

The shifts in Latin America's payments with the United States are brought out in the table below. Purchases here dropped from the swollen total of $3.9 billion in 1947, to $2.7 billion in 1949, while sales to us rose from $2.3 billion to $2.5 billion. Hence the trade deficit of $1.6 billion in 1947 fell to one-eighth, or to about $200 million in 1949.

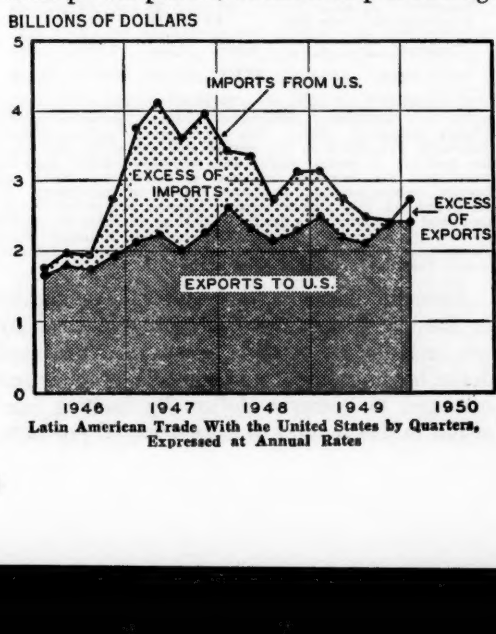
Latin America: Use and Supplies of Dollars, 1947-49
(In Billions of Dollars)

Use of dollars	1947	1948	1949
Purchase of U. S. goods	$3.9	$3.2	$2.7
Payments for debt service, transportation and other charges (net)	.4	.6	.4
Total use	4.3	3.8	3.1
Supply of dollars			
Sale of goods to U. S.	2.3	2.6	2.5
Dollars obtained from Europe and other areas*	.6	.8	.6
New long-term capital flow	.4	.3	.5
Total supply	3.3	3.7	3.6
Balance	—1.0	— .1	+ .5
Change in gold holdings	— .8	— .2	+ .1
Change in dollar holdings	— .2	+ .1	+ .4

Source: Based on Survey of Current Business (June 1949, December 1949 and June 1950). *Including discrepancies in available figures.

To pay for the deficit, Latin American countries could count during the 1947-49 period on receiving about one billion dollars a year from "other sources". These dollars included payments from ECA "offshore purchases", export surpluses with Western Germany, the inflow of new capital, and other sources.

Presumably the dollar earnings have grown further so far this year. As will be seen from the chart below, the excess of imports in Latin America's trade with the United States was replaced in the first quarter of 1950 by an export surplus equivalent to $300 million on an annual basis. But as the Department of Commerce pointed out recently, Latin America's payments to Western Europe and other countries now exceed the dollar receipts from these areas. This suggests, at least in some cases, the reappearance of the prewar pattern, when the surplus earnings



Latin American Trade With the United States by Quarters, Expressed at Annual Rates

in international payments with the United States were used to settle trade deficits with Europe.

Central America and the Caribbean

The foregoing simplified balance sheet covering the overall payments of Latin America with the United States does not of course mean that the payments of every country are in balance. Actually, the individual situations vary widely.

Of the Latin American Republics included in the "dollar bloc", Venezuela, Cuba, and most of the smaller Caribbean and Central American Republics have been earning enough dollars to dispense with most controls over bona fide trade transactions. Their imports have remained within 10 per cent of the 1947 peak figure.

With their balance-of-payments under no particular strain, most of the countries in the "dollar bloc" managed, as will be seen from the next table, to build up their gold and dollar holdings or at least to draw on them only moderately. By the end of last March, these holdings were at a new high, $1.9 billion, representing some 55 per cent of entire Latin America's gold and dollars.

Gross Gold and Dollar Holdings of Latin American Countries

(In Millions of Dollars)

	Dec. 31 1946	Dec. 31 1948	June 30 1949	Mar. 31 1950
No Balance of Payment Difficulties				
Cuba*	$ 655	$ 891	$ 862	$ 910†
Venezuela	301	457	523	495
Uruguay	217	203	203§	247
Dominican Republic	42	40	40	41
El Sal., Guatem., Hond.	102	93	101	122
Panama	77	72	70	79
Subtotal	1,394	1,756	1,799	1,894
Balance of Payment Difficulties				
Brazil	528	441	433	458
Argentina	1,185	358	372	433
Mexico	332	189§	205§	265‡§
Colombia	203	137§	126§	196§
Chile	116	99	100	110
Peru	65	73	73	80
Bolivia	37	41	39	37‡
Ecuador	37	28	26	25
Nicaragua and Costa Rica	19	18	16	17
Subtotal	2,522	1,384	1,390	1,621
Grand total	$3,916	$3,140	$3,189	$3,515

*Including official estimates — possibly overstated — of dollar notes in circulation; †November 1949; ‡December 1949; §Partly estimated. Note: The above gross holdings include practically everything in the way of gold and dollar resources: the holdings of central banks and treasuries, dollar notes in circulation, the "working balances" of commercial banks and business enterprises, and the bank deposits of individuals. To the extent that they include working balances and private funds, they tend to overstate the funds likely to be available for spending on U. S. goods. Sources: International Monetary Fund (International Financial Statistics), Federal Reserve Bulletin, Cuban Treasury Statements, and others.

Although normally tied closer economically to Europe than to the United States, Uruguay was included in the table because her gold and dollar holdings are at a new peak. Uruguay has managed to conserve dollars by limiting purchases in this country to more essential products.

Countries with Payment Difficulties

It is in the other countries of Latin America that dollar payment difficulties have been serious. To deal with them a great variety of devices have been used: import quotas, higher tariffs, cuts or outright suspensions of imports, bilateral and barter deals, and others. Most favored, however, has been the use of multiple exchange rates, designed to increase the cost of non-essential and luxury goods and, at the same time, to encourage the export of secondary products.

In combination with the increasing availability of European goods and the growth of Latin American manufacturing, the effect of such measures on U. S. exports has been extremely severe. Purchases in the United States by Argentina during the six months period, October 1949-March 1950, were down 81 per cent as compared with the 1947 figures; those of Uruguay and Brazil, over 60 per cent and of Mexico and Peru, over 30 per cent. Consumer goods and non-essentials have come in for the biggest slashes.

Import restrictions and related devices are negative measures. Instead of bringing into play self-corrective forces such as an increase of production, which would eventually make possible the removal of controls, they have tended to intensify internal inflation. They have merely postponed the carrying out of more positive measures, primarily balancing the budget.

However, between drastic cuts in imports from the United States and higher prices and larger sales of coffee, wool, hides, cocoa, and other products, all the countries of this group except Mexico, Ecuador, and Peru, had a favorable trade balance with this country during the six months ending in March. In the case of Brazil, the export surplus was unprecedentedly large — over $210 million.

Most successful in correcting basic maladjustments have been Mexico and Peru, which have devalued their currencies. In Mexico, which has been free of any exchange controls, it was possible — with the support of some import restrictions and internal anti-inflationary measures — to eliminate a heavy trade deficit. In Peru, the devaluation was followed by the removal of the multiple exchange rate system.

The second table shows that Argentina, Mexico, and Colombia accounted for the bulk of some $250 million increase in the gold and dollar holdings of this group of countries. This does not fully reflect the improvement in the balance of payments, since a part of the increased dollar earnings has been applied to reduce the back-

log of debts for imported merchandise. Colombia had cleared the arrears by the end of 1949, and Brazil is expected to be in a position to reduce them to more or less normal proportions within a few months. Mexico and Chile also have reduced their short-term indebtedness here. The trade debts of Argentina have been reduced by about one-third since last summer; the remainder, estimated at $110 million, is expected to be liquidated with the proceeds of the recent Export-Import Bank credit.

Prospects for Future Dollar Earnings

Now that the dollar gap in overall Latin American international payments with the United States has been eliminated, the question arises whether the improvement will hold. A vital factor is the level of business activity in the United States.

Provided most of the coffee from the 1950 crop just beginning is sold at around present prices, the dollar earnings from coffee will be maintained. But the resistance of the American consumer to the high prices has already resulted in curtailed consumption and imports. Hence it may be difficult to realize the present high coffee prices and dollar earnings, particularly if recent favorable growing conditions should result in larger crops in 1951. The wool and hide producers are in a stronger position. But with old stocks cleaned out, current production will determine future dollar earnings. Chile and Bolivia, whose earnings fell off last year because of lower prices of copper and tin, are expected to do better during the coming months.

The reduction in outstanding commercial debt is a basic improvement. Repayment of debts might be expected to lead to some relaxation of import controls. Brazil, for example, may be able to take that course in the not distant future.

The unusual advantages that United States exporters held during the postwar period — the availability of goods and lower prices — are being lost in the comeback of Western Europe and the currency devaluations. However, though some exporters lose business, dollars earned by Latin America and turned over to Western Europe for imports come back to us in payment for European purchases, benefiting other exporters. The return to this triangular pattern of payments results in more goods being moved all around.

The Disruptive Force: Inflation

The chief disruptive force weakening Latin America's international payments position is inflation. On one hand, the rise in costs and prices reduces the profitability of exports; on the other, the rise in incomes creates a tendency to overimport. Since the war inflation has fed largely on government deficits and on the high level of private investments — some of them uneconomical and unproductive — financed to a considerable extent by bank credit. Rising incomes have kept the demand for local products at a high level, and hence there has been reluctance to apply the brakes. Like everything else, inflation varies from country to country. In Cuba and Ecuador among others, the rise of costs and prices seems to have been checked. In Argentina, Brazil, Colombia, and Chile, the advance has continued.

The recovery of exports and prices in recent months has afforded a period of grace. The danger, especially in the coffee producing countries, is that higher incomes will keep up the inflationary pressures and that increased costs will check the stimulus to increase the production for export. Unless improvement in international payments is accompanied by internal fiscal and monetary measures, aimed at checking inflation, these countries may find that their prices and costs are again out of line and that ultimate adjustments have been merely postponed.

Apples, Oranges and Government Price Supports

The Wall Street Journal of June 16 carried a brief news despatch from that newspaper's Boston Bureau which seems deserving of wider notice:

> Boston — The apple industry believes its future lies in more aggressive promotion and opening of new markets, rather than in a government price support program.
>
> Individualistic growers of Delicious, "Macs", Jonathans, Baldwins and other varieties gathered here for their national convention this week, urged crop support people in Washington to forget the apple industry if they have any plans for extending the program in their direction.
>
> Apple growers fear and would keenly resent government intervention, said John Chandler, president of the National Apple Institute. If the Government should support the price of apples the whole effort of the industry to stimulate greater use of the fruit would go by the board, he declared . . .

This item calls to mind another story which appeared in the Wall Street Journal of March 6 — a despatch from Correspondent Robert K. Pepper, from Lakeland, Florida, giving an account of the prosperity reigning among Florida citrus growers resulting from the unusual combination of a good crop of oranges selling at the highest prices in history. (In the past, years of good crops have generally meant discouragingly low prices). Commenting on this happy combi-

nation for the orange growers, Mr. Pepper continued:

> What's behind this striking prosperity in an industry plagued for many years by chronic over-production and low prices? More than anything else, it's the frozen juice boom. Having started from scratch just five years ago, producers of the cold concentrate are absorbing one-third of Florida's 60-million box 1949-50 orange crop.

All very interesting, the reader may interject, but what has this story of orange juice got to do with the problem of apples and government price supports?

We suggest that it has a lot to do with it, and that the editor of the Wall Street Journal put his finger on the spot when, in commenting on Mr. Pepper's despatch, he wrote:

> Contrast this story of oranges with some of the government sponsored programs in other farm products — potatoes and eggs are the prime example — where the government has stepped in with something that the sponsors are pleased to call a "stabilization" program . . .
>
> It is possible that if oranges had been "stabilized", some inventive soul would still have found out about frozen concentrate. But that is doubtful. It is doubtful because the compelling incentive to find a new marketing device would have been absent.

At a time when Congress has just authorized another $2 billion for farm price supports (after having tied up $4 billion already) and when the Department of Agriculture, according to a Department spokesman, plans to announce new support prices "as soon as it gets the money to guarantee these prices," it is refreshing to read a declaration of independence by one segment of agriculture, which believes that its future lies not in reliance on government price-pegging schemes but in a program of "aggressive promotion" and "opening of new markets" — in other words, in the kind of a program, including pricing, that will encourage people to eat more apples.

Some Other Examples

Moreover, the apple growers are not the only farm group to reject the principle of farm price supports, with all the paraphernalia of government controls of production and marketing that goes with them.

A year ago California potato growers voted thumbs down on signing up for the potato support program, preferring to hang their hopes on the quality of their product in a competitive market. As one grower expressed his sentiments, "Those who can't grow potatoes that will sell shouldn't be in the business." According to another big California grower —

> Competition is what made this area. It forced us to improve. We experimented with the new commercial fertilizers when they came out, cracked down on the grading and turned out the cleanest pack ever known. Under marketing controls these things just don't come about. Our methods will continue to improve and we'll give the consumer the best potato for his money — so long as we're left alone.

Similar action was taken by Maryland poultry raisers this year in voting against federal price supports on commercial broilers. Here, as in the case of the California potato growers, the objections to the program were the encouragement given to inefficient producers, with resulting oversupply, and dislike of production and marketing quotas regarded as "regimentation".

There have been still other instances of farm groups either rejecting price supports altogether, or — as in the case of the American Butter Institute — asking reduction of supports to more realistic levels that would tend to keep supply and demand in better balance. Both of the two largest farm organizations — the American Farm Bureau and the National Grange — have declared themselves in favor of flexible price supports, and in opposition to the present 90 per cent of parity under which excess supplies have been accumulating.

Yet the Administration continues to press Congress for passage of the Brannan plan, which would allow prices of perishable farm commodities to find their free market level, but would guarantee farmers their "parity" income from the U. S. Treasury. Apart from the unknown cost of such subsidies, such a program would call for still more of the quotas and regimentation against which the farmers are objecting and even rebelling. Equally objectionable, farmers would become increasingly dependent upon checks from Washington for their net income, and as Allan Kline, President of the American Farm Bureau Federation has so aptly put it, "a dollar seldom travels to Washington and comes back whole."

The Crime of Bigness

"Big business" in recent months has been under a mounting crescendo of attack strongly reminiscent of the Temporary National Economic Committee's inquiry in the late 'thirties. The general idea is that big business has "monopoly power," exerted not so much to the damage of the consumer but to the damage of small competitors. The President boiled it down to one sentence when he said, in his 1949 message on the State of the Union: "Small business is losing ground to growing monopoly."

The accusations are of profound significance. "Bigness" is inseparably linked with growth, with success, and with the economies of large-scale manufacture and distribution. Undiscriminating

attacks on "bigness" are attacks upon the American system of enterprise, the most productive the world has ever known.

Attacks From Every Side

The battle has been waged on many fronts, in the press, on the radio, in the courts and in Congressional hearing chambers. Statistics published by the Federal Trade Commission, on "concentration of productive facilities" in 1947, have been widely quoted to show how large a percentage of assets in a given industry is accounted for by three or four companies. Wartime data on business mergers, liquidations and failures have been used as another "proof" that industrial concentration has increased and is increasing. But, barring an uncommon amount of misinformation peddled as fact, new data are remarkably few, and critics quite generally have fallen back on the T.N.E.C. archives for evidence on the evils of size.

Several Congressional committees, in both Houses, have been at work on the "problem" and from various angles. Of these a subcommittee of the House Judiciary Committee, headed by Congressman Celler of New York, and studying "monopoly power", has had most of the recent headlines. The Anti-Trust Division of the Justice Department, to cite only three big cases on the fire, has entered suits which, if successful, would break up the Great Atlantic & Pacific Tea Company into seven parts, the Western Electric Company into three, and force the General Electric Company to give up half of its lamp production facilities. The Federal Trade Commission is getting out orders for particular corporations or industries to "cease and desist" from this or that business practice or custom which it finds to constitute "unfair competition." The federal courts, loaded with cases and appeals from F.T.C. decisions, have been laying down new doctrines which in turn give anti-trust lawyers scope for new prosecutions.

Congressional committee members, confused by testimony of economists about "administered prices", "imperfections" of competition, and "oligopoly", have tended to simplify all these theoretical concepts by identifying them with "monopoly". "Monopoly" at least is a word that can be understood even when living specimens elude discovery. The fact was lost sight of that the tongue-twisting "oligopoly" is supposed to describe a special type of competitive situation, like that in the automobile industry, where the competitors are relatively few in number but can do a pretty stiff job of competing among themselves.

The specific charges levelled at big business are far too numerous even to recapitulate in these pages. The business structure and the price-making process differ widely from one industry to another, and also change over time. Critics, little concerned about being consistent, march out in all directions with their criticisms. One business is accused of exploiting a monopolistic position and charging too much for its products; another of competing unfairly and charging too little. One business is criticized for expanding too vigorously; another for not expanding enough. Price behavior is always looked upon with suspicion. Monopoly is detected when prices change too often, too seldom, too uniformly, or not uniformly enough. The insinuation often is that big business is really inefficient and that it can only hold its position by being so big and powerful that it can dictate to people that they must give it their business.

There sometimes does not appear to be much rhyme or reason to the accusations. But, leaving the reason part aside, there is assuredly a common theme. That is that American business has just grown too big for the good of the country. The issues become more confused when critics of big business say that they are not opposed to "bigness" as such, but are only against the "monopolistic power" which, they allege, resides in big business.

Bigness in Steel

That big business is "too big" was of course a dominant note in the T.N.E.C. investigation of "Concentration of Economic Power" which terminated its activities when Pearl Harbor plunged this country into war. The steel business was then as now a special target for attack. The final report of the Executive Secretary of the Committee under date of March 15, 1941, gave prominence to a finding that

> The manufacturing capacity of United States Steel Corporation alone is approximately that of all German producers combined. It is almost twice that of the entire British steel industry and more than twice that of all French mills combined.

The comparison could have been made to look that much "worse" if the capacity of *other* American steel companies, roughly twice that of U. S. Steel, had been added in. So far as steel was concerned, the aggregate represented America's capacity to serve as an "arsenal of democracy." Yet the fact of the size of U. S. Steel was used to convey to people the idea that they should be ashamed, or fearful, of America's capacity to produce.

The U. S. Steel Corporation, at one time or another, has been accused of almost all the

crimes of bigness. In testimony before the Celler Committee two months ago, Benjamin F. Fairless, president of U. S. Steel, told the story of the kaleidoscopic changes in government attitude toward his company beginning with the war years:

It was only a few years ago — in the war years — that the Government gloried in the size of its industrial giants and honored them for doing successfully the giant tasks — the almost impossible production tasks — that our national security demanded. It called upon United States Steel to outproduce, single handed, all the Axis nations put together. We did so. It called upon our great research laboratories and our skilled technicians to design and to create such storybook miracles as a "portable" landing field for aircraft. We did so. It called upon our management to use all of its experience, ingenuity, efficiency and know-how, to build, to man and to operate vast new steel-making plants for the Government. We did so. And the Government sang our praises.

But when the war was over, all this was conveniently forgotten in Washington. The Government no longer acclaimed us. It belabored us severely — not because we were too big — but *because we were not big enough.* It denounced us because we could not produce instantly all the steel that was needed to meet the pent-up demands of a world that had been starving for civilian goods for four long years. It urged us to expand our plants and facilities. And we did so.

Today, this too is forgotten, but the Government continues to attack us. It now appears that we are *too* big, and that we have been all the time.

Growth in Small Business

Mr. Fairless, drawing in part on government statistics to prove the point, also took occasion to demolish the basic assumption that "small business is losing ground to growing monopoly," or, as he put it, that "big business is a cannibal which eats small business alive." With the growth and development of the country big business has grown and developed, and so has small and medium-sized business. Here are facts that he cited:

Fifty years ago there were 1,660,000 businesses in the United States. Today there are approximately 4,000,000.

In half a century there has been a net increase of more than 2,300,000 enterprises — an average of more than 40,000 per year.

In the same period the human population of the nation has grown 97 per cent; but the business population has grown about 140 per cent.

And in the first four years following the recent war, new businesses were starting up *at the rate of more than 30,000 per month.*

For every single company that has disappeared through merger during the past eight years, *more than forty* new companies have been established successfully in the mining and manufacturing fields. The astonishing truth is that in ten years since 1939, the total number of these enterprises has increased by 49 per cent; and that mergers today are taking place at a rate less than half as great as that which prevailed in the 1920's.

Facts as compiled from United States Census Bureau tabulations and inserted into the record by Secretary of Commerce Charles Sawyer show that, in the twelve years from 1935 to 1947, so-called "concentration" — even as measured by their own definition — increased in only 45 per cent of the 130 American industries covered by the study. *Conversely, it decreased in 55 per cent of them.*

Studies by the Federal Reserve Board and the Department of Commerce, moreover, prove conclusively that the concentration of power, wealth and profits in the hands of big business *declined* sharply during the war. Summarizing its findings, the Board reported: "The small and middle-sized firms showed a markedly greater increase in sales, in profits, and in assets than did the larger companies."

In short, if big business had been trying to gobble up little business, it has made a dismal failure of the effort. While the alleged monopolist is busy absorbing one competitor, two or more spring up to take his place.

The Larger Issue

On steel, Mr. Fairless cited figures in the Subcommittee's records:

The Census Bureau exhibits in the record of this Subcommittee, covering more than four hundred industries, and calculating the degree of concentration in each, show that the "steel works and rolling mills" industry — far from being on top of the pile — is in the great middle, and that the degree of concentration in the steel industry is approximately the average for all American industry.

Mr. Fairless asked the question: "If the steel industry is to be broken up or subjected to special regulation on the ground that it is too highly concentrated, must not the same thing logically be done to no fewer than 173 other American industries wherein there is more concentration than in steel?" The question is one of principle. Should we break up our industries? Should government bureaus be entrusted with their control? Or should we be glad that we have them, competing among themselves for the general benefit in peace and war?

The Price Question

The "solution" of Congressman Celler would be to put some kind of a statutory limit on size and break up business when it got too big. The "solution" of a majority of the Congressional Joint Committee on the Economic Report, headed by Senator O'Mahoney, would be to declare the steel industry something of a public utility and protect the public "from arbitrary increases in prices" by having producers notify price changes to government bureaus, and holding proposed advances in suspense until hearings had been held on "the reasons for, and general effects of" such price increases. The apparent idea is that the prospect of having prices made the subject of "trial" would discourage the steel companies from changing their prices. The result might be that the holders of the hearings, whoever they were,

would obtain a power of price control in fact if not in law.

This recommendation, from the O'Mahoney Committee, followed an investigation by that Committee on the steel price increases of last December, averaging about 4 per cent, which followed the grant of new pension and insurance benefits in the steel industry generally. The report of the Committee, from which a number of members dissented, criticized the price increases as "not only untimely but unwarranted" and intimated that the steel business must be "monopolistic" since nine producers accounted for 78.9 per cent of all steel capacity and the largest three for 56.3 per cent.

Steel is an industry where the prevailing weight of criticism on prices has been that they are too high. President Truman, in a press conference on January 27, 1949, was reported to have said that he had always thought the price of steel was too high. This also appeared to be the general idea of the O'Mahoney Committee. Yet, curiously, if more companies were to be induced to go into the business of making steel — as the critics would like — the steel price and the profits in making steel would have to be higher than they are. If steel prices were much *lower,* weaker companies already in the business, and smaller plants less economical in size, would fall by the wayside and the calculated "concentration" in the industry would increase.

There are countless thousands of firms operating in the steel business, and demonstrating every day, by their continued profitable existence, that economies of vast-scale production have definite limits. But in primary steel a small business has little chance. The big company — and all primary steel producers have to be "big" — has economies of large scale production and passes on savings in lower prices. The small business cannot compete because the consumer is gaining these economies.

It is economies of large scale production and distribution — not monopolistic practices — that make industrial and commercial enterprises big. It is the fact that there are limits on such economies that keep open so numerous opportunities for smaller business. And it is the enormous potentialities of the American market that give to any innovator, in method or product, the hope of profit through growth to bigness.

Unfair Competition

In steel, big business is accused of charging too much, but the charge is made just as frequently that big business competes too vigorously, sells too cheaply, makes life too hard for competitors, reduces their numbers, and thus in the end suffocates competition. When all competitors are driven out, the theory goes, the newborn "monopolist" is free to raise prices as high as he likes. Thus, although the consumer profits handsomely so long as competition goes on, he loses out in the end.

This is good enough text-book theory of monopoly but it underestimates the regard of the would-be "monopolist" for his own self-interest. After all he is not alone in business. The more he extends himself — geographically and productwise — the more vulnerable he is to competition. The more business he has the more he stands to lose. He has to consider not only competition in being, but the competitive potential, from people who would enter or re-enter the field if they thought he was having too easy a time of it. An enterprise that has grown big by finding economies of large scale operation and passing them along to the consumer, cannot hold its position for long if the principles that made its success are forgotten.

The du Pont Company developed nylon after years of patient, expensive research. It is now the sole producer of nylon in the United States. This is a brand-new "monopoly" since nylon did not exist fifteen years ago except as an idea. But in the business world nylon is no monopoly but a vigorous new competitor among materials and fibers. Markets for nylon have been found and extended by lowering prices and the development of improved forms. Producers of rayon have been spurred to improve their products.

During testimony before the Celler Committee last November, Mr. Crawford H. Greenewalt, president of du Pont, displayed a $49.95 dress and the 1.2 pounds of nylon staple required to make it. For the nylon in the dress du Pont gets $1.92. The difference, Mr. Greenewalt indicated, "represents the vast amount of work done by the many smaller businesses which lie between us and the final buyer . . . the spinner who spins the staple into yarn, the throwster who twists it, the weaver who makes it into cloth, the finisher who dyes it, the designer and the cutter who make the garment, and the retail store that sells it." What is true of nylon is true also of synthetic fibers in general, of cellophane, of plastics, of new metals and alloys — indeed of any new or improved product that can be turned out cheaply in volume. When a big company like du Pont brings out a nylon, opportunities are created for thousands of imaginative people to go into business or to get ahead with a going business. In the end the consumer stands as the

major beneficiary. It is to please and attract him that all these efforts are expended.

"Decentralize" Industrial Power?

In a letter to the New York Times, dated May 2, Chairman Celler of the House Judiciary Committee, while insisting that his subcommittee's investigations are "not aimed against big business," quotes approvingly from an opinion by Justice Douglas of the Supreme Court:

> Industrial power should be decentralized. It should be scattered into many hands so that the fortunes of the people will not be dependent on the whim or caprice, the political prejudices, the emotional stability of a few self-appointed men.

Decentralization of *industry*, so far as it can be carried out efficiently, is a recognized principle of big business and likewise of national defense. Decentralization of *ownership* is also recognized as a desirable principle, and there is hardly a town or a hamlet in the country that does not have, besides proprietors of local business, shareholders in business operating in other States or on a national or international scale.

Decentralization of *control* in industry tends to be increased proportionately to size and decentralization of plants. In any case a careful coordination of efforts is needed if a large organization is to work at peak efficiency. The "power" that a top business man wields is related to his ability to make correct business decisions and to command the confidence of his subordinates. The typical head of a giant industrial enterprise is not, as Justice Douglas would have him, a "self-appointed" man. He has risen through the ranks as he has demonstrated his talents for leadership. He has many "bosses", not least of which is his own sense of responsibility. He has a Board of Directors and with the Board he has the interests of the shareholders of the enterprise as a whole, and the jobs to which it gives rise, to protect. In the final analysis the real dictator is the consumer, free to choose and change his mind about what he wants any time he pleases. As Mr. M. E. Coyle, executive vice-president of General Motors, told a Congressional Committee in December, 1948: "The people who made us big will whittle us down to size if we do not give them good products." To reverse Justice Douglas' language, the fortunes of the executive in big business are dependent on the whim or caprice of the customer.

Critics of big business who yearn for decentralization raise up nostalgic visions of "the good old days" when a man could be – indeed had to be – a jack of all trades, when life was retrospectively less complicated, people were not so dependent on one another for a livelihood, and families and small communities could be nearly self-sufficient. These conditions can be found in many so-called backward areas of the world today. Whether for better or for worse, this country could not support its present population – not to mention international commitments – without the highly specialized and integrated machinery for producing goods that we have. Nor could it do so by installing tariffs at the State line, granting little monopolies to local industry, and depriving industry of access to a unique national asset – a market of unparalleled size. There is no going back. The alternative to stagnation is to go forward.

"Bigness" in Government

Critics sometimes assume or imply that business has grown beyond the point of maximum economic efficiency or beyond the talents of men to manage. This can and does happen. When it does people turn elsewhere with their trade, the business falls on hard times, and has to be reorganized. More efficient competitors crowd in with their more economical scales of operation. If a business is big, as well as successful and profitable, it normally follows that its operations compare favorably with its competitors in efficiency and are under reasonably good control.

While Congress raises questions from time to time about the losses in one or another government activity, the business of Government is not under the same exacting test. The Hoover Commission task force reports have cited one example after another of inefficiencies and egregious waste in the overgrown government establishment. And the Hoover Commission did not even touch the larger question as to whether the manifold federal departments, agencies, commissions, and corporations were not trying to do so many things that nothing can get done very well.

In all the discussion of "bigness" and "monopoly power" it is surprising that so little has been said about the Federal Government "holding company" headquartered in Washington with activities sprawling into almost every possible field, with a collection of "monopolies" beyond parallel in any private enterprise, with a greed for undertaking new things that would put any private monopolist to shame, and with a power to extort taxes from the people to cover losses and finance expansion. Just one of the major government monopolies, the Agriculture Department with its subsidiary corporations, adds billions upon billions of dollars to the nation's food bill every year. It is a strange paradox that, while the Government goes about its business of taxing the people to deprive them of cheaper bread and

milk, butter and eggs, and meat and potatoes, it hauls into court, time and again, a grocery chain whose achievement has been to reduce the costs of food distribution about as low as they can go.

There is one other area of so-called "monopoly power" that escapes close scrutiny, "big labor", the leaders of which make no bones about their collective power. On May 10, at the Steelworkers Convention at Atlantic City, Philip Murray, president of the Steel Workers, and Walter P. Reuther, president of the Auto Workers, announced that the two unions would wage a joint fight for a guaranteed annual wage, union shop, higher pensions and other gains. Mr. Reuther stated:

> If our two powerful unions stand together in the frontline trenches in the struggle for a fuller measure of economic and social justice for our membership, I am confident that there is no power in America that can stop us in our forward march to a better life for our people.

On other labor fronts, we have had repeated practical demonstrations of the power of organized labor. Mr. John L. Lewis time and again has shown his power to paralyze industry by turning off its fuel supply. At this writing one of the railroad unions, demanding a larger wage increase than was recommended by a Presidential fact-finding board, has tied up transportation on five major railroads. James Caesar Petrillo continues to dictate the terms on which musicians can perform for radio or television audiences or make recordings.

Some Fundamentals

In a speech delivered at Milwaukee, April 13, Secretary of Commerce Charles Sawyer took occasion to make a dispassionate review of the many sides of the question of "size". Decrying the "bunk" uttered in public debates on concentration in industry and commerce, Secretary Sawyer set out a series of questions which go to the heart of the issue:

> We must ask ourselves this fundamental question. When everything else in America is getting bigger, shall we expect business to get smaller? And if we expect or wish it to get smaller, why? In comment upon the first question, it is proper to point out that every economist giving thought to our future progress emphasizes the need for a continually growing national product. Our population is growing, our number of employables is growing; to meet the needs of our population and give work to those who want it, business must grow.
>
> If growth is desirable generally, is it undesirable in particular places and how can we prevent it or why should we want to prevent it? There is nothing sacrosanct about a corporation — big or little — nor is business entitled to any special privileges. If, however, we undertake to interfere with the processes of growth, some inquiries are in order.
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> Business, as I have said before, is somewhat like the human anatomy. It is an organism, tough to be sure, but in many ways very delicate. I, myself, recently experienced a major operation and therefore may be particularly sensitive to the questions which should be asked before an operation is undertaken. An operation is always risky.
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> What are the symptoms which indicate a malfunction? Specifically, what is wrong? We hear occasionally the statement that concentration of economic power is destroying our liberties. It is proper to ask what liberties are being destroyed. We hear that small business is being crushed out. What businesses are being crushed out?
>
> Let us continue specific questions. In what way is our business body not functioning properly? Is it failing to maintain or raise our standard of living? Is it selling its products at fair prices? Is it giving employment at good wages? Is it considering the welfare of its employees? Is it earning money for its shareholders? Is it contributing its share of taxes for the support of the government? Is it doing its part in time of war?
>
> These and many other questions should be asked and asked searchingly. They should be asked and answered — first, to enable us to act, when action is necessary, on the problem of concentration; — second, to dispel baseless rumors and unfounded assertions which worry many sincere and well-intentioned people.

It would be helpful if Secretary Sawyer's approach could be brought to bear on anti-trust policy — to put it on a straight course consistent with the aspirations of America and Americans for growth. There is little doubt that, on any impartial inquiry, the answers to Mr. Sawyer's questions would be favorable to American industry. Our economic system is not perfect. None ever was. But, for such a highly complicated machine, it is a marvel of efficiency. No criticism is of very much value that disregards the solid achievement or the essential foundations of that achievement — freedoms of opportunity to go into business, to improve upon a going business, and to gain rewards of growth.

"Dream big dreams and plan big plans", the President has said. He has drawn glowing pictures of the possible size of the American economy in the year 2000, fifty years hence. It would take a Jules Verne to imagine the new things that may then be a commonplace; the commonplaces of 1950 that may then be obsolete; how much labor can be saved by what new techniques in the meantime; and which of today's industrial giants, through skillful adaptation to change, may survive to that year. It is only possible to hope that today's children will have and exploit opportunities to improve on the worthy enterprises of today and to launch new ones to take large and important places in the streams of industry and commerce. The achievement of the year 2000, whatever it is, will not come from destructive dismantlement of the 1950 economy but from using it as a foundation for further growth and progress.

in U.S.A.